

CITY AUDITOR'S OFFICE



REVIEW OF BUILDING AND SAFETY DEPARTMENT EXPRESS INSPECTIONS

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CITY AUDITOR

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**REVIEW OF
BUILDING AND SAFETY DEPARTMENT
EXPRESS INSPECTIONS
CAO 752-0607-07**

BACKGROUND

The Building and Safety Department Inspection Division is responsible for ensuring that construction within the City of Las Vegas conforms to established building codes. To accomplish this, the Inspection Division employs an Inspection Manager, 7 Supervisors, 70 Inspectors, and 3 full-time and 1 part-time dispatchers. For an additional fee, customers can schedule same day or set time inspections. These inspections are referred to as Express Inspections.

OBJECTIVES

The Building and Safety Department requested the assistance of the City Auditor's Office in reviewing the Express Inspections process. Our objective in completing this review was to identify and evaluate the adequacy of existing controls relative to the Express Inspection process.

SCOPE AND METHODOLOGY

Our review was performed in accordance with generally accepted government auditing standards. Procedures included:

- Review of City policy and procedures and Nevada guidelines;
- Interviews of personnel;
- Express Inspection observations; and
- Analysis of financial data.

The analysis of financial data was limited to the months of June and July 2006. The review did not include reviewing the quality of the completion of Express Inspections. The last day of fieldwork was August 29, 2006.

FINDINGS AND RECOMMENDATIONS

Our review identified certain issues management should address to improve the Express Inspection process and ensure proper collection and recording of all fees. These deficiencies are summarized in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. Check Acceptance Procedure

Criteria

City of Las Vegas Check Acceptance Procedure (FN304a):

Responsibilities and Authority

The Department, Division, or Office Supervisor is responsible for: Ensuring their employees are following the check acceptance policy and procedure.

Procedures

Use the following procedures when accepting a check on the City's behalf.

Checklist

- Verify that the check is dated for the same day they are given. Do not accept postdated checks. (Procedure Number 2)
- Do not accept pre-signed checks. Make sure all checks are signed in your presence. (Procedure Number 3)
- Write the driver's license or photo identification number on the check. (Procedure Number 7)

Types of Identification

When accepting payments by check, have the check writer present their driver's license. If they do not have a driver's license, two forms of identification are required.

Condition

Express Inspections are same day or set time inspections for which additional fees are charged. The additional fees are paid by the customer for doing inspections in the form of personal checks, business checks, or money orders. Many Express Inspections occur at construction job sites. The acceptance of these checks is not in compliance with the City's Check Acceptance Procedure. Contractors pay for these inspections with pre-written, pre-signed checks made out to the City of Las Vegas. Further, identification is not obtained. Instead, inspectors write the permit number and street address on the check.

Cause

Checks are accepted by inspectors at job sites and not by a cashier in an office setting. City procedures were designed to provide controls relative to the acceptance of checks by City departments. The controls were created for standard cashier functions and not for checks accepted in the field.

Effect

Check acceptance procedures for Express Inspections is not in compliance with City established procedures.

Recommendation

Building and Safety management should contact Finance and Business Services for assistance in evaluating current check handling practices and develop adequate compensating controls. Consideration should be given to researching the feasibility and cost effectiveness of implementing alternative payment methods for Express Inspections. Potential options include:

- ***Credit Cards:*** The customer could provide credit card authorization when scheduling Express Inspections. After the completion of the inspection, the credit card could be charged for the exact amount of the inspection.
- ***Interactive Voice Response (IVR):*** Building and Safety could add an option that would enable customers to schedule Express Inspections at a stated time and make the payment over the system.

2. Safeguarding of Receipted Checks

Criteria

City of Las Vegas Cash Handling Policy (FN302):

Cash Safeguards

- Cash handling areas shall have restricted access.
- Money stored in drawers, desks, and filing cabinets shall be locked when left unattended.
- All revenue collections, regardless of amount, shall be deposited intact within 24 hours.
- For security reasons, the transportation of deposits from remote sites to the departments shall be handled by City Marshals or the designated armored car service. All deposits shall be made using lockable bags with the keys being held only by the depositor.
- Checks collected during the day shall be restrictively endorsed (“FOR DEPOSIT ONLY”) immediately upon receipt.

Checks should be safeguarded from acceptance until deposited at the bank to avoid the theft of checks. The Corporate Fraud Handbook Prevention and Detection, by Joseph T. Wells identifies various check tampering schemes:

- "...In one instance, signed checks were left overnight on the desks of some employees because processing on the checks was not complete. A janitor on the overnight cleaning crew found these checks and took them, forged the endorsements of the payees, and cashed them..."
- "...Once the check has been intercepted, perpetrators can cash it by forging the payee's signature, hence the term "forged endorsement scheme."
- "The second type of intercepted check scheme is the altered payee scheme...The fraudster inserts her own name, the name of a fictitious entity, or some other name on the payee line of the check. The alteration essentially makes the check payable to the fraudster, so there is no need to forge an endorsement and no need to obtain false identification. The fraudster or an accomplice can endorse the check in her own name and convert it."

The Fraud Examiners Manual identifies ways stolen checks are used:

- "Using a stolen canceled check; a check thief can order checks from a mail-order check printer and have them sent to a mail drop address. Checks can then be written on the new stock and cashed."
- "Check washing takes place to the tune of \$815 million every year in the U.S., and it is increasing at an alarming rate. Checks are stolen from mailrooms and mailboxes, and then the check is inserted into a solution of chemicals that can be purchased at a hardware store. Once dried the fraudster can write in any amount and the checks are usually cashed without question."

Condition

Inspectors turn in Express Inspection checks with applicable documentation at the West Yard. The checks are not properly safeguarded, as follows:

- Checks are not adequately secured until they are forwarded to the Permit Division office supervisor as noted below:
 - Checks and applicable inspection documentation are placed in an open wire basket on the dispatcher's desk.
 - Checks remain in the unsecured wire basket until processed for transfer to the Development Services Center (DSC).
 - The dispatcher records the check numbers, inspection number, permit numbers, company name and amount on an Express Inspections Check Summary Log (Cash Summary). The checks and Cash Summary are inserted into an interoffice mailer and placed on an unsecured table until picked up by a runner for transport to the DSC.
 - The runner gives the interoffice mailer to an office specialist, who in turns forwards it to an office supervisor.
- Inspectors do not restrictively endorse checks immediately upon receipt. Instead, the Permit Division cashier at the DSC completes this when she receipts checks

into either Legacy or Hansen (City of Las Vegas integrated data management software systems) and prepares them for deposit.

- Checks are not always deposited intact within 24 hours, as noted below:
 - Checks accepted on Fridays and throughout the weekend are not processed until the next business day (usually Monday).
 - When the assigned dispatcher is not at work, checks are not processed until her return.
 - As time allows, the cashier receipts checks into either Legacy or Hansen. Checks not receipted throughout the day are secured in the cashiers change bag for processing the next day.

Cause

The deposit of checks is assigned a lower priority than other duties.

Effect

Non-compliance with City established policies and procedures regarding safeguarding checks. Inadequate internal controls can result in the theft of checks.

Recommendation

Building and Safety management should strengthen controls relative to check processing to include the following:

- Checks should be immediately restrictive endorsed upon receipt.
- The inspectors should insert Express Inspection checks into a drop safe.
- Access to the drop safe should be restricted to employees responsible for the deposit.
- Checks should be receipted into Legacy or Hansen by an employee at the West Yard and directly deposited into the bank.
- An employee should be assigned the check receipting function when the assigned employee is not available.

3. Customer Receipts

Criteria

City of Las Vegas Cash Handling Policy (FN302)
Cash Receipting

All cash collected by departments shall be recorded by cash register or on a General Receipt (GR) form. GRs must be printed to include the city name, the department name, or both.

City of Las Vegas Cash Handling Procedure (FN302a)

Responsibilities and Authority

A Department Director whose department receives cash shall be responsible for: Ensuring the department has written cash handling procedures that are consistent with the city-wide cash handling policy.

Procedure

- When a payment is received from an individual on behalf of the City, the cashier shall:
 - Record the transaction by cash register, ATLAS receipting system (ATLAS), or on a General Receipt (GR) form.
 - Provide a receipt to the individual making the payment. Include the city name, the department name, and customer name and address on all receipts. (Procedure Number 1)
- The departmental cashier or accounting clerk accounts for all Cash Summary Sheets and pre-numbered forms (used and unused) that are issued to that department. The assigned cashier logs out and signs for all GR books issued to outside collection points. (Procedure Number 5)
- Whenever a department finishes a GR book, the cashier or accounting personnel checks to ensure all copies are included, and has the Department Director or Designee sign off on the book. The department retains the book(s) for a period of two fiscal years or until audited whichever occurs later. (Procedure Number 6)

Condition

City policy requires recording the receipt of checks by using either a cash register or a GR form. Express Inspection checks are not receipted by either of these methods. Instead inconsistent procedures are used by the inspectors to receipt Express Inspection checks, as follows:

- Inspectors write various comments on the inspection report/request to indicate the acceptance of checks. Comments range from indicating that a check was received to writing the check number, amount of check, and/or payor name.
- Inspectors stamp their inspector number on the check stub, indicate a check was received, and give the check stub back to the customer.

Cause

The Inspection Division has not implemented a consistent method to record the receipt of checks. Newly hired inspectors are trained by observing seasoned inspectors in the field.

Effect

Non-compliance with City policy and procedures.

Recommendation

Building and Safety management should implement and document consistent procedures for the receipting of checks. City policy requires the use of GR forms when a cash register is not used. Consideration should be given to assigning each inspector a GR book. Upon accepting checks, one copy of the receipt should be given to the customer and the other copy left in the book. The City of Las Vegas Cash Handling Procedure should be followed in accounting for all used and unused receipts.

4. Reconciliation of Express Inspections to Accepted Checks

Criteria

Cash Handling Policy (FN302)

Cash Receipting

Cash receipting duties shall be adequately segregated whenever possible.

City of Las Vegas Cash Handling Procedure (FN302a)

Responsibilities and Authorities

A Department Director whose department receives cash shall be responsible for:

- Ensuring the department has written cash handling procedures that are consistent with the city-wide cash handling policy.
- Designate an employee as the Reconciler.

The Reconciler shall be responsible for:

- Safeguarding the City's cash assets.
- Preparing a Cash Summary Sheet.
- Reconciling money and GRs and/or cash register tape.

Procedure

An employee (other than the cashier) designated by the department director shall: Ensure that the cash, checks, and revenue receipts are in agreement. (Procedure Number 3)

Condition

The dispatcher at the West Yard records Express Inspection checks on a Check Summary and forwards the checks and Check Summary to the DSC for deposit. Scheduled Express Inspections are not reconciled to deposited checks.

To ascertain whether checks were received for all Express Inspections, we reconciled scheduled Express Inspections (per the Request Log) to accepted checks (per the Cash Summary) for the months of June and July 2006. We noted differences between the two documents. The reasons for these differences are noted below:

- A receivable is not set up in the computer for Express Inspections. Instead, checks are charged as a general receipt against the permit number when receipted.
- Under the following conditions, Express Inspections were included on the Check Summary but not on the Request Log:
 - Overtime Express Inspections scheduled by the supervisors.
 - Contractor requests to convert scheduled regular inspections into Express Inspections.
 - Hand written inspection requests/reports which indicate the contractor requested the Express Inspections when inspector is already in the field.
 - Express Inspections canceled in the computer but not on the Request Log.
- There was no evidence in the computer that Express Inspections occurred. However, the inspections were listed on the Request Log.
- Checks are not always turned into the dispatcher on the same day.
- Checks received for weekend inspections were included on the Cash Summary but not on the Request Log.
- No evidence exists that checks were received for two Express Inspections.

Cause

No reconciliation of inspections to the receipted checks is completed.

Effect

No assurance that Express Inspections fees have been collected and deposited intact.

Recommendation

Building and Safety management should assign an employee the responsibility for reconciling Express Inspections to accepted checks. This employee should not be responsible for handling checks. To assist in this reconciliation, the following procedures should be implemented:

- All Express Inspections should be included on the Request Log.
- Canceled Express inspections should be documented on the Request Log.
- Follow-up should be performed and documented when differences exist between scheduled inspections and deposited checks.

5. Monthly Performance Report

Criteria

Performance reports should accurately reflect an organization's operations and performance.

Condition

Each month, a Cash Summary Sheet is prepared by an administrative secretary. The Cash Summary Sheet compares the monthly and fiscal year to date figures to the same periods from the previous fiscal year. Included on the Cash Summary Sheet are the number of and revenue total for Express Inspections.

We completed a comparison between the count and revenue figures for Express Inspections taken from the daily Cash Summaries to the July 2006 Cash Summary Sheet. Differences existed between the two documents. A portion of the difference can be attributed to the following:

- The count of Express Inspections on the July 2006 Cash Summary Sheet is based on the number of checks receipted not the number of inspections completed.
- The revenue for Express Inspections on the July 2006 Cash Summary Sheet is based on when the checks were receipted in Legacy or Hansen not on the date of the Inspections.
- The July 2006 Cash Summary Sheet includes Hansen receipted callouts.

A \$3,085 difference between the daily Cash Summaries to the Cash Summary Sheet could not be explained.

Cause

Use of inaccurate computer generated reports in the preparation of the monthly Cash Summary Sheet.

Effect

Reliance on inaccurate statistical information for management decisions or performance measures.

Recommendation

Building and Safety management should develop a more accurate method of calculating monthly performance data.

6. Overpayments

Criteria

NRS 120A.095 (2) “Intangible property” defined. ‘Intangible property’ includes:

Credit balances, **customers’ overpayments**, gift certificates, security deposits, refunds, credit memoranda, unpaid wages, unused airline tickets and unidentified remittances;

NRS 120A.220 Intangible personal property held by court, public corporation or officer, or governmental entity.

Except as otherwise provided in NRS 607.170, all intangible personal property held for the owner by any court, public corporation, public authority or public officer, an appointee thereof, a federal or state governmental entity or a political subdivision thereof, that has remained unclaimed by the owner for more than 3 years after it became payable or distributable is presumed abandoned and subject to the provisions of this chapter if:

1. The last known address or residence of the owner or the property is in this State, or
2. The property is otherwise abandoned in this State.

NRS 120A.430 Action to enforce payment or delivery of abandoned property to Administrator; award of costs and attorney’s fees; imposition of civil penalty.

If any person refuses to pay or deliver property to the Administrator as required under this chapter, the Attorney general, upon request of the Administrator, may bring an action in a court of competent jurisdiction to enforce the payment or delivery. In such an action, the court may award costs and reasonable attorney’s fees to the prevailing party, and, if the Administrator is the prevailing party, may impose a civil penalty against the losing party in the amount not to exceed 2 percent of the value of the property, or \$1,000, whichever is greater.

NRS 120A.440 Criminal penalties.

1. Except as otherwise provided in subsection 2, any person who willfully fails to make any report or perform any other duty required under this chapter is guilty of a misdemeanor. Each day such a report is withheld constitutes a separate offense.
2. Any person who willfully refuses to pay or deliver abandoned property to the Administrator as required under this chapter is guilty of a gross misdemeanor.

NRS 120A.450 Interest

1. Except as otherwise provided in subsection 2, in addition to any penalties for which he may be liable, any person who fails to report or to pay or deliver abandoned property within the time prescribed by this chapter shall pay to the Administrator interest at the rate of 18 percent per annum on the money or the value of other property from the date on which the property should have been paid or delivered.
2. The Administrator may waive the right to the payment of all or part of the interest pursuant to this section if:
 - a. The person otherwise obligated to make payment files with the Administrator a verified statement of the facts, showing that his failure to report or to make payment or delivery was not willful or negligent but occurred because of circumstances beyond his control; and
 - b. The Administrator so finds.

Condition

As noted previously in the first finding of this report, contractors carry numerous pre-written, pre-signed checks made out for various amounts to the City of Las Vegas. When contractors do not have checks made out for the correct amount for Express Inspections, the inspectors are given checks for amounts that exceed the required fee. These checks are accepted and receipted for the full amount as Express Inspections. The overpayment amounts are not identified.

Cause

The focus of contractors is on construction continuation and they view the overpayments as a cost of doing business.

Effect

Non-compliance with Nevada Revised Statutes that could result in the imposition of civil or criminal penalties.

Recommendation

Building and Safety management should separately track and record all overpayments collected from Express Inspections. Overpayments should be made available for refund or applied against further inspections. Any overpayments that remain unclaimed after three years should be treated as unclaimed property and processed in accordance with Nevada Revised Statute.

7. Policy and Procedures Manual

Criteria

City of Las Vegas Cash Handling Procedure (FN302a)

Responsibilities and Authority

A Department Director whose department receives cash shall be responsible for:
Providing written procedures to all employees whose responsibilities include revenue collection and disbursement.

Condition

No written policies and procedures exist for Express Inspections.

Cause

The Inspections Division has not documented their process.

Effect

Certain practices followed in the acceptance of Express Inspection checks are inconsistent and out of compliance with City policy and procedures.

Recommendation

Building and Safety management should document its Express Inspection policies and procedures. As the operation does not conform to a standard check acceptance process, Finance and Business Services should approve any deviations from City policies and procedures.

8. Document Retention

Criteria

Building and Safety Retention Policy:

Record Series Number: 57162

Record Series: Cash Summary Sheets and Backup

Local/State/Federally Mandatory Retention Period: Until completion of Annual Audit

Legal Requirements:

Nevada Revised Statute 354.624

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Nevada Administrative Code 239.531
Nevada Administrative Code 239.551

Nevada Administrative Code 239.531 Records for building and safety.

Bookkeeping records: Period of Minimum Retention – Until annual audit is completed.

Nevada Administrative Code 239.551 Miscellaneous records common to local governmental entities.

Accounting reports, general (office copies): Period of Minimum Retention – Until annual audit is completed.

Condition

The Request Logs and Cash Summaries are filed by date in binders. Once the binders are full, the oldest logs are destroyed. On average, only two to three months of Request Logs and Cash Summaries are retained.

Cause

The dispatchers were instructed to destroy older documentation.

Effect

- Non compliance with State of Nevada, and Building and Safety retention policies.
- Inability to effectively research issues when documents are destroyed.

Recommendation

Building and Safety management should re-evaluate its document retention practices and determine the proper period to retain Request Logs and Cash Summaries. These documents should at a minimum be retained for the period required by Nevada Administrative Code.

MANGEMENT RESPONSES

1. Check Acceptance Procedures

Recommendation:

Building and Safety management should contact Finance and Business Services for assistance in evaluating current check handling practices and develop adequate compensating controls. Consideration should be given to researching the feasibility and cost effectiveness of implementing alternative payment methods for Express Inspections. Potential options include:

- ***Credit Cards:*** The customer could provide credit card authorization when scheduling Express Inspections. After the completion of the inspection, the credit card could be charged for the exact amount of the inspection.
- ***Interactive Voice Response (IVR):*** Building and Safety could add an option that would enable customers to schedule Express Inspections at a stated time and make the payment over the system.

Management Plan of Action:

In cooperation with Cory DeMille of the Finance Department, all inspectors have now been issued stamps and immediately restrictively endorse checks to CLV upon receipt. Receipts are issued in accordance with the WSC Cashiering and Deposit process. Cash is never accepted.

Estimated Date of Completion:

November 15, 2006

2. Safeguarding of Receipted Checks

Recommendation:

Building and Safety management should strengthen controls relative to check processing to include the following:

- Checks should be immediately restrictive endorsed upon receipt.
- The inspectors should insert the Express Inspection checks into a drop safe.
- Access to the drop safe should be restricted to employees responsible for the deposit.
- Checks should be receipted into Legacy or Hansen by an employee at the West Yard and directly deposited into the bank.

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- An employee should be assigned the check receipting function when the assigned employee is not available.

Management Plan of Action:

All inspectors are provided with stamps to immediately restrictively endorse checks to the CLV. Checks are now deposited in a drop safe located at the West Service Center. Access to drop safe is restricted to the Inspections Manager and Administrative Secretary. A cashier is now assigned to the WSC and enters all checks into either Legacy and Hansen and the checks are picked up by AT Systems and deposited daily. A back up cashier is now provided.

Estimated Date of Completion:

November 15, 2006

3. Customer Receipts

Recommendation:

Building and Safety management should implement and document consistent procedures for the receipting of checks. City policy requires the use of GR forms when a cash register is not used. Consideration should be given to assigning each inspector a GR book. Upon accepting checks, one part of the receipt should be given to the customer and the other copy left in the book. The City of Las Vegas Cash Handling Procedure should be followed in accounting for all used and unused receipts.

Management Plan of Action:

In cooperation with Cory DeMille of the Finance Department, all necessary information is entered on the clients inspection receipt including job address, inspection type, appointment date and time, inspector number, inspector's name and signature, check number received and amount, and comments regarding the inspection.

Estimated Date of Completion:

November 15, 2006

4. Reconciliation of Express Inspections to Accepted Checks

Recommendation:

Building and Safety management should assign an employee the responsibility for reconciling Express Inspections to accepted checks. This employee should not be responsible for handling checks. To assist in this reconciliation, the following procedures should be implemented:

- All Express Inspections should be included on the Request Log.
- Canceled Express inspections should be documented on the Request Log.
- Follow-up should be performed and documented when differences exist between scheduled inspections and deposited checks.

Management Plan of Action:

All Express Inspections are entered in an Express Inspection Log. Canceled inspections are entered in red. All requested inspections are reconciled with deposited checks. Any discrepancies are brought to the attention of the Senior Inspector for an explanation. The Cashier will reconcile the log daily to insure that all checks have been received for all inspections scheduled.

Estimated Date of Completion:

November 15, 2006

5. Monthly Performance Report

Recommendation:

Building and Safety management should develop a more accurate method of calculating monthly performance data.

Management Plan of Action:

Daily reports are sent to Finance and the Cashier Supervisor. Daily Reports are kept until quarterly audits by a supervisor and periodic audits by the City Auditor.

Estimated Date of Completion:

November 15, 2006

6. Overpayments

Recommendation:

Building and Safety management should separately track and record all overpayments collected from Express Inspections. Overpayments should be made available for refund or applied against further inspections. Any overpayments that remain unclaimed after three years should be treated as unclaimed property and processed in accordance with State Statute.

Management Plan of Action:

Overpayments are not accepted.

Estimated Date of Completion:

October 5, 2006

7. Policy and Procedures Manual

Recommendation:

Building and Safety management should document its Express Inspection policies and procedures. As the operation does not conform to a standard check acceptance process, Finance and Business Services should approve any deviations from City policies and procedures.

Management Plan of Action:

A Policy and Procedures Manual has been developed and distributed for staff use. This document is available on request.

Estimated Date of Completion:

November 15, 2006

8. Document Retention

Recommendation:

Building and Safety management should re-evaluate its document retention practices and determine the proper period to retain Request Logs and Cash Summaries. These

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documents should at a minimum be retained for the period required by Nevada Administrative Code.

Management Plan of Action:

Management Plan of Action: All logs are kept for a minimum of one year or until such time as a complete audit has been done on the process.

Estimated Date of Completion:

November 15, 2006